

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BEC1834 – MICROECONOMICS

(All sections / Groups)

13 OCTOBER 2018

2.30 p.m. - 4.30 p.m.

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FOUR (4)** printed pages with:
Section A: Twenty (20) True or False questions (40 marks)
Section B: Two (2) structured questions (60 marks)
2. Answer **ALL** questions.
3. Answer in the answer booklet provided.
4. Marks are shown at the end of each question.

SECTION A: TRUE OR FALSE QUESTIONS (40 MARKS)

There are TWENTY (20) questions in this section. Answer ALL questions on the answer booklet.

Determine whether the following statements are **TRUE** or **FALSE**.

1. Sellers will bear more of the tax if the demand is inelastic.
2. An example of binding price floor is the minimum wage law.
3. A change in the price of the good itself will cause a movement along the supply curve.
4. Surpluses cause prices to rise while shortage cause prices to fall.
5. If instant noodle is an inferior good, other things being equal, an increase in consumer income will increase the demand for instant noodle.
6. Equilibrium in a market exists when there is neither a surplus nor a shortage of the good.
7. The price elasticity of demand measures consumer responsiveness to a price change.
8. If the demand for coffee is elastic, consumer will spend more on coffee when its price increases.
9. Goods with few available substitutes tend to have inelastic demand curves.
10. Economic profit equals to revenue minus explicit costs.
11. If a firm increases output and its average total cost rises, then the firm is experiencing economies of scale.
12. In the long run, a competitive firm will earn zero economic profit.
13. A perfectly competitive firm is a price taker, but a monopolist is a price maker.
14. A monopolistically competitive firm, like perfectly competitive firm, is a price taker.
15. Oligopolies have few sellers and significant barriers to entry.

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16. A monopolist always earns an economic profit.
17. Competitive firms frequently use advertising to differentiate their product from their competitors' products.
18. Indifference curves cross each other.
19. The slope of a budget constraint can be measured by relative prices of goods.
20. Consumer optimizes their satisfaction level by equating marginal rate of substitution and relative prices.

[Total: 40 marks]

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SECTION B: STRUCTURED QUESTIONS (60 Marks)

There are TWO questions in this section. Candidates MUST answer ALL TWO questions.

Question 1

Read the following passage.

Passage I**Price of chicken in Malaysia may go up**

PETALING JAYA - Poultry prices are on the rise as Hari Raya nears with some dealers blaming lower supply and others at higher chicken feed cost.

Major poultry dealers in Perak and Johor said the price of dressed chicken was set to increase further, causing concern to consumers. Perak poultry association chairman Datuk Ding Thong Chow said there had been insufficient supply even before Ramadan began. He said demand for the popular meat remained high during Ramadan. Ding said insufficient supply was also due to the stunted growth of chicken.

"Usually after 38 days, a chicken weighs about 2.5kg and is ready for slaughter but now it only weighs about 2kg at that stage. It's taking longer for chickens to grow." We think this is due to the poor quality of dried maize imported from Argentina. There is a workers' strike so, shipments have been delayed," he said yesterday.

He said the price of chicken had increased to RM5 a kilo from RM4.80 (S\$1.72), with Perak supplying 20 per cent of the national poultry production. In Johor, poultry dealers said the higher price of chicken feed was due to the strengthening US dollar.

Dealers in the state said they had no choice but to pass on the cost to consumers, pointing out that breeders were setting higher ex-farm chicken prices. Pasar Kampung Melayu trader Faaiz A. Rahman, 29, said the price of chicken at RM6.40 a kilo this week would go up to RM7.50 before the Government price control mechanism sets in for Hari Raya.

A trader at the Larkin wet market, who wanted to be known only as Teo, said the chicken feed costs had a negative impact on prices. "We do not set these rates but we have to increase prices in order to make a minimal profit," he added.

A large Indian Muslim restaurant chain owner in Petaling Jaya said chicken prices had been high over the past two months. "We get a daily SMS from the supplier telling us what the price is. Some days, it goes up by 60sen and 70sen. If it drops, it's only by 10sen and 20sen.

"As of now, there should not be any problem in supply for Hari Raya," Federation of Livestock Farmers' Associations of Malaysia president Jeffrey Ng said. Ng said the price of chicken feed was not the highest over the past two years.

Source: Sivanandam. H. (Jun 29, 2015). Retrieved from <http://www.asiaone.com/malaysia/price-chicken-malaysia-may-go>.

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Based on the **Passage I**, answer the following questions:

- (a) Discuss a factor that caused a change in the, (i) demand for chicken, and (ii) supply of chicken in Malaysia using supply-and-demand diagrams. (16 marks)
- (b) Assume chicken is a staple food for Malaysians. Explain the effect of increase in chicken price on the revenues of the chicken producers. (4 marks)
- (c) Suppose the equilibrium price for chicken is RM8.00 per kilogram. However, the government intervenes the chicken market by imposing a ceiling price at RM 6.50 per kilogram during Hari Raya. Describe the impact of this ceiling price on the chicken market using an appropriate diagram. (10 marks)

[Total: 30 marks]

Question 2

- (a) BB Juice Bar has the following cost schedules in **Table 1**:

Table 1

Quantity (cups)	Variable Cost (RM)	Total Cost (RM)
0	0	30
1	10	40
2	25	55
3	45	75
4	70	100
5	100	130
6	135	165

- (i) Compute average variable cost (AVC), average total cost (ATC) and marginal cost (MC) for each quantity. (9 marks)
 - (ii) Based on part (i), illustrate all three cost curves in a graph paper. (7 marks)
- (b) Show the differences between perfect competition, monopolistic competition, oligopoly and monopoly using the following characteristics:
 - (i) Number of firms (2 marks)
 - (ii) Types of products (2 marks)
 - (iii) Conditions to enter market (2 marks)
 - (iv) Control over the price (2 marks)
 - (v) Long run profit (2 marks)
 - (vi) Shape of its demand curve (2 marks)
 - (vii) An example (2 marks)

[Total: 30 marks]

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